

**TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE**



FISCAL NOTE

SB 2495 - HB 2635

February 1, 2012

SUMMARY OF BILL: Repeals the gift tax on transfers made on or after January 1, 2013.

ESTIMATED FISCAL IMPACT:

**Decrease State Revenue – Net Impact -
\$14,953,400/FY13-14 and Subsequent Years**

**Decrease State Expenditures - \$112,600/FY13-14
\$167,700/FY14-15 and Subsequent Years**

Increase Local Revenue - \$218,200/FY13-14 and Subsequent Years

Other Fiscal Impact – Secondary economic impacts may occur as a result of this bill. Such impacts may be realized due to changes in population or as a result of other behavioral changes prompted by passage of this proposed legislation. Due to multiple unknown factors, fiscal impacts directly attributable to such secondary economic impacts cannot be quantified with reasonable certainty.

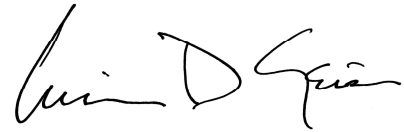
Assumptions:

- No impact to tax revenue collections for FY12-13.
- Under current law, gift tax collections for gifts made during tax year 2013 accrue to FY13-14. This collection pattern is assumed to remain constant into perpetuity.
- According to the Department of Revenue (DOR), gift tax collections were approximately \$15,470,000 in FY10-11.
- Gift tax collections under current law remain constant at FY10-11 levels.
- One-hundred percent of gift tax collections are allocated to the General Fund.
- The recurring decrease in state revenue as a result of repealing the state's gift tax is estimated to be \$15,470,000 per year.
- Fifty percent of taxpayer savings will be spent on other sales-taxable goods and services.
- An increase in taxable sales of \$7,735,000 (\$15,470,000 x 50.0%) per year.
- The current state sales tax rate is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent.

- Pursuant to Tenn. Code Ann. § 67-6-103(a)(3)(A), local governments receive 4.5925 percent of state sales tax revenue as state-shared sales tax revenue.
- The net recurring increase in state sales tax revenue is estimated to be \$516,584 $[(\$7,735,000 \times 7.0\%) - (\$7,735,000 \times 7.0\% \times 4.5925\%)]$.
- The total recurring increase in local government revenue is estimated to be \$218,241 $[(\$7,735,000 \times 2.5\%) + (\$7,735,000 \times 7.0\% \times 4.5925\%)]$.
- The total net recurring decrease in state revenue is estimated to be \$14,953,416 $(\$15,470,000 - \$516,584)$.
- DOR indicates that three positions from the Audit Division can be eliminated in FY13-14 as a result of no longer having to administer the gift tax. In addition, the Department indicates that one additional position can be eliminated in FY14-15. DOR indicates a decrease in state expenditures of approximately \$112,600 for FY13-14, and a recurring decrease in state expenditures of approximately \$167,700 beginning in FY14-15.
- There could be subsequent increases in state and local government revenue and expenditures due to secondary economic impacts prompted by passage of this bill. Increases in revenue may occur if the state's population increases as a result of a reduced tax liability. Increases in expenditures may occur if the demand for governmental programs and infrastructure increase as a result of population increases. Due to multiple unknown factors such as the extent and timing of population changes, the fiscal impacts directly attributable to such secondary economic impacts cannot be quantified with reasonable certainty.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Lucian D. Geise, Executive Director

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